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RULSDMK/NSA US WASHDC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RHMFISS/DEPT OF HOMELAND SECURITY WASHINGTON DC
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S E C R E T SECTION 01 OF 11 BEIJING 000392

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USDOC FOR 532/BIS/EA/MBORMAN/BKRITZER/ALOPES
USDOC FOR 532/BIS/DHILL
USDOC FOR ITA/IKASOFF
USDOC FOR OIO/ADESSSARAN/WZARIT
SECSTATE FOR EAP/CM
SECSTATE FOR EB/ESP
SECSTATE FOR ISN
CIA FOR WINPAC
DEPT OF HOMELAND SECURITY FOR ICE/STRATEGIC
DEPT OF TREASURY FOR DORSETT/SANDER/MCCORMICK
NSA FOR PROSTRAT
GUANGZHOU FOR FCS/CONS/ECON
SHANGHAI FOR FCS/CONS/ECON

E.O. 12958: DECL: CESSATION OF ALL EXPORT CONTROLS TO CHINA

TAGS: [BEXP](#) [CH](#) [ETRD](#) [ETTC](#) [PARM](#) [PREL](#)

SUBJECT: PRE-LICENSE CHECKS RE PROPOSED EXPORT OF CARBON
FIBER FURNACES BY HARPER INTERNATIONAL CORPORATION;
D384453, D385894, D387780, D380694

REF: A) USDOC 10779 (12/27/07) B) USDOC 10777
(12/27/07) C) USDOC 10780 (12/27/07) D)
USDOC 7211 (08/07/07) E) BEIJING 3381
(05/18/07) F) BEIJING 2924 (05/04/07) G)
BEIJING 2417 (04/11/07) G) STATE 115444
(08/17/07) H) BEIJING 5446 (08/17/07) I)
BEIJING 5569 (08/23/07) J) CHU/KRITZER
E-MAIL 08/06/07

Classified By: Jeannette L. Chu, Export Control Officer, for reasons 1.
4 b/h

11. (U) Unauthorised disclosure of the information provided
below is prohibited by Section 12(C) of the Export
Administration Act.

12. (S) SUMMARY: REFTELS A,B,C and D requested Pre-License
Check end-use visits to determine the reliability of certain
companies in China to receive controlled United States goods
and technology in the form of carbon fiber furnaces
classified as ECCN 1B001 and controlled for national security
and nuclear non-proliferation reasons. HARPER INTERNATIONAL
CORPORATION, West Drullard Avenue, Lancaster, New York 14086
(716/684-7400) submitted export license applications D384453
(JIANGSU HENGSHEN FIBER MATERIAL CO. - REF A), D385894
(GUANGZHOU KINGFA SCI & TECH CO. - REF B), D387780 (CHINA
BLUESTAR - REF C), and D380694 (XIAN CHAOMEI IBER TECHNOLOGY
CO. - REF D; ECO has been advised by USDOC/BIS/OEA that this
PLC request will be cancelled). HARPER INTERNATIONAL
CORPORATION also submitted license application D368395
seeking to export carbon fiber furnaces to WEIHAI TUOZHAN
FIBER CO. LTD. This transaction was the subject of a
Pre-License Check end-use visit conducted on April 5, 2007
and reported in BEIJING 2417 (REFTEL G). Additionally, CHINA
NATIONAL CHEMICAL CORPORATION a/k/a "CHEMCHINA" recently

attempted to purchase HARPER INTERNATIONAL CORPORATION and submitted a pre-filing notification to the Committee on Foreign Investment in the United States (CFIUS) on July 2, 2007. REFTEL G requested that post demarche appropriate host government ministries concerning this planned acquisition and REFTELS H and I report on EMBOFF's meetings with Chinese interlocutors. REF J provides additional background regarding the planned acquisition of HARPER INTERNATIONAL. This report consolidates end-use visits to three prospective customers and addresses CHEMCHINA's ongoing interest in acquiring HARPER INTERNATIONAL. END SUMMARY.

D384453 JIANGSU HENGSHEN FIBER MATERIAL CO.

13. (U) On October 7, 2007, HARPER INTERNATIONAL submitted license application D384453 seeking to export one LT pilot furnace, one HT pilot furnace, one production LT furnace and one production HT furnace (total four furnaces) with a combined value of \$10,230,000 to JIANGSU HENGSHEN FIBER MATERIAL CO. ("HENGSHEN FIBER"). On January 7, 2008, ECO requested that the Ministry of Commerce (MOFCOM) arrange a Pre-License Check (PLC) end-use visit to HENGSHEN FIBER in accordance with the Exchange of Letters on End-Use Visit Understanding (EUVU). On January 15, 2008, MOFCOM scheduled this PLC for January 20, 2008. On January 20, 2008, ECO, accompanied by MOFCOM officials JIANG Qianliang and JIANG Feng, conducted a site visit at HENGSHEN FIBER and met with Vice Board Chairman ZHUO Liu and Deputy General Manager FAN Jianping. The meeting took place on the premises of HENGSHEN FIBER's parent company, HENGBAO CO. LTD, a/k/a JIANGSU HENGBAO INDUSTRIAL DEVELOPMENT LTD, Hengtang Industrial Zone,

BEIJING 00000392 002 OF 011

Danyang City, Jiangsu Province, China.

14. (U) Mr. ZHUO stated that HENGSHEN FIBER was established in August 2007 as a privately held, family-owned company. According to the End-User Statement provided by HENGSHEN FIBER in support of this license application, QIAN Jing is the chairman of HENGSHEN FIBER holds 60% of its shares and QIAN Hongchuan holds the remaining 40%. QIAN Jing is the son of QIAN Yunbao, the founder and chairman of HENGBAO CO. LTD, which is listed on the Shenzhen Stock Exchange. QIAN Hongchuan also holds 30% stock in HENGBAO CO. LTD and 30% of stock in a related company, JIANGSU HENGBAO SOFTWARE TECHNOLOGY CO. LTD. The parent company, HENGBAO CO. LTD, was established in 1996 and manufactures magnetic strip cards, smart cards, SIM/PIM/UIM cards, contact/contactless IC cards and scratch stored-value cards, and is now the third-largest manufacturer of credit cards in China. According to the company website, www.hengbao.com, JIANGSU HENGBAO SOFTWARE TECHNOLOGY CO. LTD specialises in the research and development of smart cards control operation systems and was the first company to receive approval from the Ministry of Information Industries to produce products containing secret codes. ECO questioned the logic nexus between magnetic strip cards and carbon fiber production and was assured that company officials had thoroughly researched a number of business possibilities before settling on carbon fiber due to the strong potential for making large profits.

15. (U) According to Mr. ZHUO, HENGBAO was looking to invest in a related business area and decided to pursue making composite materials beginning with carbon fibers. HENGSHEN FIBER has no expertise in composite materials but currently has 36 employees including four specialists in manufacturing carbon fiber, including himself, who were hired away from JILIN CHEMICAL COMPANY a/k/a JILIN CHEMICAL GROUP FINE CHEMICAL CO. LTD, which is a subsidiary of CHINA NATIONAL PETROCHEMICAL (CNPC) JILIN CHEMICAL GROUP and was previously known as a chemical research institute. HENGSHEN FIBER does not currently have any customers or firm orders but has identified three companies that have provisionally agreed to purchase carbon fiber from them in the following quantities:

300 tons/year for manufacturing gas cylinders to HANGZHOU SUO QI XIAN JIN FU HE CAI LIAO GONG XI a/k/a FUYANG SPECIAL FIBER APPLICATION INSTITUTE and SFAI HANGZHOU SOKY ACM INC.(www.hzsuoqi.com); 200 tons/year for aquatic sports equipment to HANGZHOU XIONG YING SHUI SHANG YUN DONG PING CI CUI YOU SHENG GONG SI (Hangzhou Water Sports Equipment Company LTD), and 400 tons/year for wind turbines to SINOMA SCIENCE AND TECHNOLOGY CO LTD (NOTE: According to the company website, www.sinomatech.com, this company is comprised of three research institutes -- NANJING FIBERGLASS R&D INSTITUTE, BEIJING FRP R&D INSTITUTE and SUZHOU NONMETAL MINERAL INDUSTRY R&D INSTITUTE -- and claims to be, "...the largest developing base for such materials in support of China's defense industry."). Mr. ZHUO stated that HENGSHEN FIBER does not engage in customer screening and does not have an internal compliance program. HENGSHEN FIBER has identified strong demand for carbon fiber for consumer applications such as wind turbines, sporting goods, gas cylinders, etc., and plans to be a leading domestic supplier of carbon fiber. Mr. ZHUO stated the prospective customers identified above currently use fiberglass and have agreed to substitute carbon fiber. Mr. ZHUO also noted that CHENDGU AIRCRAFT CORPORATION (CAC) has a contract with BOEING to produce composite parts for the Boeing 787 Dreamliner; in response to specific questioning by ECO, Mr. ZHUO denied having any direct contact with CAC or plans to supply carbon fiber or other composite materials to CAC.

BEIJING 00000392 003 OF 011

¶6. (U) According to company documentation, HENGSHEN FIBER initially plans to produce 1000 tons of 24K carbon fiber and 50 tons of industrial grade 12K carbon fiber for a total output of 1,050 tons/year. HENGSHEN FIBER plans a second investment in order to produce an additional 1950 tons of carbon fiber for a total target production capacity of approximately 3000 tons/year. The factory will be built on an empty lot owned by HENGSHEN FIBER in the HUA GONG KAI FA QU (Chemical Industry Development Zone) approximately 12 kilometers away. Mr. ZHUO stated that he hopes to install the furnaces between July 2008 and January 2009, and then commence production of carbon fiber by June 2009. HENGSHEN FIBER is also moving into new office space across the street from HENGBAO CO. LTD. (COMMENT: ECO and entourage toured the future location of the HENGSHEN FIBER factory and observed a vacant lot slightly larger than the Washington Mall.)

¶7. (U) According to Mr. ZHUO and Mr. FAN, HENGSHEN FIBER met Mr. ZHANG (FNU), who is HARPER INTERNATIONAL's sales representative based in Beijing, and who conducts business as HAI TONG RAI LI GONG SI. On November 16, 2007, a HARPER employee from the United States visited them but HARPER did not inform HENGSHEN FIBER about the need to apply for an export license or potential export license conditions until December 2007. Mr. ZHUO and Mr. FAN stated that they understood that U.S. export license conditions could prohibit the production and/or sale of carbon fiber for military purposes and expressed their willingness to comply with any license conditions.

¶8. (SBU) RECOMMENDATION: UNFAVOURABLE. ECO found Mr. ZHUO and Mr. FAN to be forthcoming and cooperative throughout the PLC. However, ECO notes that HENGSHEN FIBER is a new company without a clearly defined business plan; ECO finds HENGBAO's purported motivations for establishing HENGSHEN FIBER to be lacking in credibility or logic; and ECO is further unimpressed with the lack of any customer screening or internal compliance program as evidenced by an agreement to sell carbon fiber to a customer (SINOMA) involved in developing composite materials for China's defense industry. Accordingly, ECO views HENGSHEN FIBER's sales efforts as failing to consider or mitigate the risk of potential diversion to China's military programs or other entities of proliferation concern. ECO observed extreme reluctance on the part of Mr. ZHUO to discuss where HENGSHEN FIBER has gained the technical expertise to produce carbon fiber and respectfully calls attention the attention of SAO CONOFFS to

his background in the event that Mr. ZHUO should apply for a visa to travel to the United States. ECO is unaware of any travel plans by HENGSHEN FIBER officials at this time.

D385894 GUANGZHOU KINGFA SCI & TECH CO.

19. (U) On October 30, 2007, HARPER INTERNATIONAL submitted license application D385894 seeking to export one LT pilot furnace and one HT pilot furnace with a combined value of \$2,805,000 to GUANGZHOU KINGFA SCI & TECH CO. ("GZ KINGFA"). On January 7, 2008, ECO requested that the Ministry of Commerce (MOFCOM) arrange a Pre-License Check (PLC) end-use visit to GZ KINGFA in accordance with the Exchange of Letters on End-Use Visit Understanding (EUVU). On January 23, 2008, MOFCOM scheduled this PLC for January 30, 2008. On January 30, 2008, ECO, accompanied by MOFCOM official WEI Jie and a representative of the Guangdong Provincial Foreign Trade Bureau, conducted a site visit at GZ KINGFA and met with Willis GUAN, General Manager, SONG Wei, Senior

BEIJING 00000392 004 OF 011

Engineer/Technical Manager, and Richard NIE, Purchase Director. . The meeting took place on the premises of GZ KINGFA, Gaotang Industrial Zone, Kemulan, Tianhe District, Guangzhou, Guangdong Province, China. (COMMENT: ECO notes that GZ KINGFA is the landlord for GZ O.E. OPTICAL LTD, which was the subject of the PLC in BEIJING 3381 - REFTEL E. ECO was introduced to XIONG Haitao, Vice General Manager of GZ KINGFA and wife of SONG Zhiming, one of the top five shareholders of GZ KINGFA, and NING Hongtao, Assistant General Manager, during this PLC. The sole purpose for the introduction appeared to be an opportunity for GZ KINGFA officials to complain about having been refused visas to travel to the United States. ECO referred this matter to CONGEN GUANGZHOU CONOFFS.)

110. (U) According to Mr. GUAN and company literature, GZ KINGFA is a leading manufacturer of modified compound plastics, producing 400,000 tons of product/year, and hopes to reach \$15 billion RMB in sales by 2010. GZ KINGFA was established in 1993 as a private enterprise and is a listed company with over 100 shareholders. According to Mr. GUAN, all customers are civilian commercial manufacturers and include suppliers to major foreign companies in consumer plastics, consumer electronics (laser printer cartridges, casing for television and computer screens, etc.), white goods (washing machine drums) and automobiles (Ford and others). Approximately 95% of sales are to domestic customers, however, Mr. GUAN hopes to expand exports. Mr. GUAN showed ECO samples of product, all of which are pelletized resins or compound plastics. ECO also toured the product showroom, which displayed final consumer goods manufactured using GZ KINGFA's compound plastic materials. GZ KINGFA has two main subsidiaries, SHANGHAI KINGFA and MIANYAN CHANGXIN NEW MATERIALS DEVELOPMENT COMPANY located near Chengdu, Sichuan Province. GZ KINGFA also has extensive cooperative relationships with leading research facilities including the BEIJING INSTITUTE OF TECHNOLOGY, SICHUAN UNIVERSITY, SOUTH CHINA UNIVERSITY POLYMER LABORATORY, and the CHINA ACADEMY OF SCIENCES. GZ KINGFA has established a plastics modification laboratory at National Sun Yat-Sen University and in December 2004 established the KINGFA ACADEMICIAN WORKSTATION in cooperation with the CHINA ENGINEERING ACADEMY, headed by Dr. SHI Changxu to focus on the research and development of new advanced raw materials. GZ KINGFA has received numerous national-level awards including the National Torch Program and has registered 65 patents. Additional information is available on the company website, www.kingfa.com.cn.

111. (U) Mr. GUAN stated that GZ KINGFA seeks to manufacture carbon fiber to replace glass fiber in their compound plastic products. This would yield significant weight savings and increase their overall sales volume. GZ KINGFA would use all

of the carbon fiber produced in their own compound plastic products; according to Mr. Guan, no carbon fiber would be sold to any external customers. Mr. GUAN and Ms. SONG identified in the GZ KINGFA product catalogue those compound plastic products that would use carbon fiber as an integrated material.

¶12. (C) Ms. SONG stated that two years ago GZ KINGFA sent several employees to SHANGDONG UNIVERSITY to conduct research and development on making carbon fiber. In response to specific questioning from ECO, Ms. SONG stated that SHANDONG UNIVERSITY has their own small furnace capable of producing limited quantities of carbon fiber. She described this as